



## **Comments on the Energy Policy Act of 2005, Section 388 – Alternative Energy-Related Uses on the Outer Continental Shelf (RIN 1010-AD30)**

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The Beacon Hill Institute (BHI) is submitting the following comments and suggestions to the U.S. Department of the Interior, Mineral Management Service Regulation Identification Number 1010-AD30.

The Energy Policy Act of 2005 charged the Minerals Management Service (MMS) of the U.S. Department of the Interior with implementing the use of the Outer Continental Shelf (OCS) for alternative energy projects. The MMS is currently seeking comments to help them develop regulations to guide the process of granting leases, easements and rights-of-way on the OCS for the development of energy resources other than oil and gas.

### **Program Area: Access to OCS Lands and Resources**

Specific Question # 11: What criteria (e.g. environmental considerations, energy needs, economic) should MMS consider in deciding whether or not to approve a project?

A cost-benefit analysis, which tallies the social and economic costs and benefits of any major project, should be required. If the costs exceed the benefits then there is no case for proceeding with the project, and one should stay with the status quo. Note that the fact that an operator might find it profitable to build a project (and so might bid a positive amount at an auction for a lease) does not mean that the project is socially worthwhile.

Once a cost-benefit test is conducted, it is possible to conclude whether or not a project should go forward. Then a case for proceeding can be made only if the social benefits exceed the social costs, which include “external” benefits and costs as well as internal benefits and costs.

A cost-benefit analysis of each proposed use of OCS waters determines the highest and best use of the area – that is, (1) “industrializing” the area (e.g., by installing windmills or building a wave farm) or (2) just leaving the area in its current “unindustrialized” state. If, in fact, the analysis shows that the net benefits of one or more forms of industrialization are positive, then government should auction off the leases to a private developer granting the highest bidder access to the area. This will ensure that government, as the owner of the resource, “captures” the appropriate rent.

Again, the government should move to this auctioning process if and only if cost-benefit analysis has shown that some form of development is indicated. No matter how much a private entity might bid to develop an area, that area should remain undeveloped if it fails a cost-benefit test, taking into account all “external” benefits and costs, including benefits captured through increased energy independence and cleaner air and including costs in the form of harm to fishing, recreation and to the value to tourists and homeowners of an unobstructed and uncluttered view of the area.

The worst possible outcome is for the government to auction off an area because one or more developers, who believe that it would be profitable to develop the area, with the result that the area becomes industrialized even though its industrialization fails a cost-benefit test. This poses the risk of accelerating offshore development without a systematic accounting of the economic consequences to society.